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Geneva, 25 September 1995
Agenda item 7

DRAFT REPORT OF THE STANDING COMMITTEE ON DEVELOPING SERVICES SECTORS: FOSTERING COMPETITIVE SERVICES SECTORS IN DEVELOPING COUNTRIES ON ITS THIRD SESSION

Rapporteur: Mr. Igor Vencel (Slovakia)

INTRODUCTION AND ITEMS 1, 2, 3 and 4

Speakers: Deputy to the Secretary-General of UNCTAD
Chairman
Secretariat
FUINCA
Tunisia (for African Group)
Egypt

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated **by Monday, 16 October 1995 at the latest** to:

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INTRODUCTION

1. The Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries held its third session at the Palais des Nations, Geneva, from 25 to 29 September 1995.

2. In the course of its session, the Standing Committee held ... formal plenary meetings (11th to ...th) and .... informal meetings.

Opening statements

3. The **Deputy to the Secretary-General of UNCTAD** noted that the current session was the last before UNCTAD IX where "Promoting international trade as an instrument for development in the post-Uruguay Round world" would figure prominently on the agenda particularly in regard to capacity-building in the developing countries' services' sector and the expansion of trading opportunities maximizing the developmental impact of globalization and liberalization of trade. The perception that developing countries could compete more effectively in the world market for services if they had better access to distribution channels and information networks had led to commitments being made under the General Agreement on Trade in Services (GATS). This concern was likewise reflected in the Cartagena Commitment and hence in the Standing Committee's work programme. However, along with the new opportunities there were new challenges. Most developing countries were finding it hard to mobilize the negotiating strength necessary to exercise their rights under GATS when dealing with transnational corporations and their home countries. Moreover, many issues fell outside the scope of intergovernmental negotiations. National policies could play a strong role and developing country Governments were being strongly encouraged to direct their efforts towards fortifying the negotiating position of their private firms, for example in seeking improved access

to proprietary services' distribution networks. Modernization and expansion of infrastructure, especially telecommunications, information services and human resources development, emphasizing knowledge-intensive services, were important in this regard. Firms could be established to provide services to facilitate access to networks. Problems related to the temporary movement of persons still needed to be resolved. To this end, transparency and predictability of regulations were deemed essential. In addressing agenda items 3 and 4, the Standing Committee would be focused on the "modes of supply" most readily available to developing countries in their efforts to penetrate world markets for services and integrate into the process of globalization of trade.

4. He then outlined the progress made on the implementation of the work programme, including refinement of the MAST database on laws and regulations affecting trade in services. Technical assistance had been provided in regard to regional and subregional cooperation agreements on services. UNCTAD in cooperation with UNDP had also been providing technical assistance to developing countries on the design of national policies to strengthen the sector. He reiterated the call made at the second session for the establishment of a trust fund in UNCTAD devoted to technical assistance, and reported that several donors had already come forth in support of this effort, namely, the Government of France, the Carnegie Foundation of the United States and the IDRC of Canada.

5. In closing, he emphasized that the ability of developing countries to foster the services needed for efficient, innovative production, to develop their competitive capacities and to overcome the barriers to their services exports was the key factor in maximizing the developmental impact of globalization. Whatever the Standing Committee could do to advance understanding and consensus on the issues would form a central contribution to meeting the challenges.

6. The **Chairman** drew attention to the importance of the work programme set for the Standing Committee in Cartagena. The two key issues on the agenda for the present final session before UNCTAD IX related to access to networks and liberalization concerns and difficulties facing developing countries in increasing their participation in world trade in services. The progress report prepared by the secretariat on the implementation of the work programme was also before the Committee for its consideration of the future orientation of work in preparation for UNCTAD IX, in the context of paragraph 76 of the Cartagena Commitment. She pointed out that the current session constituted essentially only the second substantive session. Owing to constraints of time and resources, the Standing Committee would not be able to cover its entire work programme. The outcome of the work to date and especially the two main agenda items held particular relevance for

the theme of UNCTAD IX, namely globalization and liberalization. Increased participation of developing countries in world trade in services, notably through information networks and via the temporary movement of persons, was crucial to the efforts of developing countries to draw benefits from the process of globalization. The Cartagena Commitment recognized that the development of competitive services warranted the support of the international community. This concept found its way into GATT which takes account of the asymmetry of competitive positions and delivery capabilities of services as between developed and developing countries in its balance of rights and obligations, notably in article 4. The impact of progressive liberalization in the field of services merited thorough consideration. Furthermore, looking at ways of enhancing information networks and distribution channels involved more than putting into effect or rendering article IV B operational. While improving access to international networks was one of the commitments under article IV, others should also be examined.

7. She then noted that her personal involvement in the recent sectoral negotiations under GATT had made her aware of the need of developing countries for more information about the barriers facing their trade in services so as to permit their effective participation in such negotiations. Information was also vital for negotiations in the regional context. UNCTAD through the Standing Committee had contributed and should continue to contribute to fulfilling that objective. The work of the Standing Committee had also led to a clearer identification of the opportunities presented to the developing countries to exploit and enhance their comparative advantage in labour and skills in essential services which could be delivered through information networks. It had also assisted in the identification of the prerequisites for liberalization of trade in services in terms of regulatory structures and capacity-building. These issues had been clearly reflected and carefully studied in the documentation before the session. She believed, however, that their complexity and importance would probably - without in any way prejudging the outcome of discussions during the current session - necessitate further work by delegations, with a view to enabling the developing countries to extract maximum benefit from the externalization of services in the production process as well as help them build the necessary infrastructure and capacity to make better use of the opportunities available to them, particularly in those service sectors where they held a comparative advantage.

8. The session would be devoted to clarifying the issues involved so that a clear message could be sent to the Trade and Development Board in the report of the session. This would help identify the decisions to be taken at UNCTAD IX. At the

current juncture, it was necessary to assess what had been done in terms of implementing the Cartagena Commitment and so set the stage for dealing with the unfinished business and engender new ideas to make the work fit better into the new multilateral trading system now evolving within the framework of the new commitments in the Uruguay Round and the perceived difficulties in their implementation, particularly for developing countries.

9. She then announced that informal meetings during the session which were to have benefited from the participation of a panel of experts had been unavoidably altered due to a budget freeze affecting travel. Last-minute arrangements were being made to allow some members of the panel to make their presentations from their home countries over telecommunications links. A presentation of the revised version of the MAST database would also be given during the informal meetings. The progress report and the elements of the report to the Trade and Development Board would be discussed during the session.

Chapter I

WAYS OF ENHANCING ACCESS TO AND USE OF INFORMATION NETWORKS AND DISTRIBUTION CHANNELS

(Agenda item 3)

IMPACT OF PROGRESSIVE LIBERALIZATION AND OF SERVICE IMPORTS ON THE DEVELOPMENT OF COMPETITIVE SERVICES SECTORS, AND THE DIFFICULTIES FACED BY DEVELOPING COUNTRIES WHICH PREVENT THEM FROM INCREASING THEIR PARTICIPATION IN WORLD TRADE IN SERVICES

(Agenda item 4)

10. At its 11th plenary meeting on 26 September 1995, the Standing Committee decided to take up agenda items 3 and 4 together. For its consideration of these agenda items, the Standing Committee had before it the following documentation:

> "Ways of enhancing access to and use of information networks and distribution channels," report by the UNCTAD secretariat (TD/B/CN.4/42);
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> "Impact of progressive liberalization and of service imports on the development of competitive services sectors, and the difficulties faced by developing countries which prevent them from increasing their participation in world trade in services," report by the UNCTAD secretariat (TD/B/CN.4/43).

11. The **Chief of the Services Section** in introducing TD/B/CN.4/42 pointed out that the belief that developing countries could compete more effectively in the world market for services if they had better access to distribution channels and information networks led to certain commitments in favour of developing countries being included in the GATS and in the Cartagena Commitment. Technological advance and the process of globalization had undoubtedly created both new opportunities and new challenges for developing country exporters of services, as information networks were becoming distribution channels for the export of labour-intensive services. In its report, the secretariat had drawn upon the contributions made in the Group of Experts, which met in Madrid from 1 to 3 February 1995 with the support of Fundacion Espanola para la Promotion de la Informacion Automatizada (FUINCA). Several services sectors which traded through information networks had

been examined at that meeting with a view to better understanding and identifying practical problems faced by developing countries.
These had differing impacts, depending on the sector concerned, the dominant position of transnational corporations, the progressive integration of producer intermediaries and outlets, the existence of new forms of anti-competitive practices, limited communications capacity, inappropriate regulations and restrictions in telecommunications and information sectors, over-elaborate protocols for access and security measures, inadequate intellectual property protection, high costs for small users, lack of skills and necessary equipment, lack of knowledge about information networks, export controls, language barriers, and restrictive immigration laws impeding the complementary movement of technical personnel. Some of these problems could be dealt with at the national level through the formulation of "access strategies", others required action at the international level, including in the context of GATS. The developing countries required the support of the international community in addressing these problems.

12. In introducing TD/B/CN.4/43, he noted that the issue of the impact of progressive liberalization and of service imports in the development of competitive service sectors had been examined in earlier UNCTAD documentation. The report thus concentrated on identifying appropriate complementary policy measures which developing countries might take to strengthen the competitiveness of their service sectors in support of the process of liberalization. As requested at the second session, the examination of the difficulties faced by developing countries in increasing their participation in world trade in services focused on problems relating to the temporary movement of persons. The analysis, which took account of the results of the recently concluded negotiations under GATS auspices, had stressed the need for transparency and predictability in the application of immigration regulations to permit service suppliers in developing countries to draw effective benefits from these GATS commitments, and, in general, increase their participation in the global search for expertise through globalization. A series of specific problems were identified relating to the use of economic needs tests and other criteria for temporary entry. The report had likewise "floated" certain ideas as to how adverse impacts on developing country service suppliers could be mitigated.

13. The representative of **FUINCA** (Fundación Española para el Fomento de la Información Automatizada) and director of sectoral and international programmes reported on the Expert Group Meeting on Access to and Use of Information Networks and Distribution Channels which took place in Madrid from 1 to 3 February 1995, held jointly by FUINCA and UNCTAD. The meeting had been attended by 30 experts who

discussed the problems and possible solutions related to the development of adequate infrastructure and technical capacity by developing countries so as to obtain "effective access" to information networks and distribution channels. The discussions drew on general or horizontal issues as well as on specific experience from areas as varied as business and professional services, audiovisual services, tourism and transport, as well as networks and their regulatory implications. Among the major barriers identified were: (a) market concentration, (b) restrictions related to data protection and trade in software, (c) discriminatory practices in access to basic telecommunications networks which subjected foreign service providers to unfair restrictions on use of equipment, licensing requirements and interconnection to domestic networks, (d) lack of control over cartel practices of domestic providers of proprietary networks, and (e) high cost for small users. He underlined that the Expert Group had concluded by highlighting the need for developing countries to adopt a strategy for obtaining effective access to networks and distribution channels, including policy measures at the national and international levels. At the national level, the development of telecommunications and computer-related infrastructure remained a priority. The enhancement of human capital through higher educational facilities as well as through improved training was of major importance. At the international level, there was a need for multilateral efforts to make the provisions of Article IV of the GATS effective and operational. For this, a set of multilateral principles including a code of conduct that would facilitate equitable access to and effective use of information networks and distribution channels would need to be formulated and accepted multilaterally. In appropriate international forums, developing countries might also need to press for the acceptance of international standards rather than national and regional ones. In closing he emphasized that FUINCA would continue supporting UNCTAD's work in this area and other technical assistance projects of common interest.

14. The spokesman for the **African Group** (Tunisia) noted the relevance of the agenda with its focus on the technological revolution and the difficulties faced by developing countries in trying to increase their participation in world trade in services. The UNCTAD secretariat in TD/B/CN.4/42 had underlined the increasing importance of access to and use of information and distribution channels. The Committee on Science and Technology for Development was also emphasizing, over the next two years, information technology. The UNCTAD report had also noted that some developing countries were encouraging cooperation with foreign firms, in order to increase their services exports and strengthen their national skills. However, no African countries were as yet cited in this category. Cooperation with foreign

firms with a view to accessing information networks and distribution channels seemed to be the shortest way to international markets. Given the domination of markets by firms from developed countries, some developing countries might have been inclined to resist liberalization in the services sector at both national and regional levels. Nevertheless, in view of the strategic role of services in the development process, developing countries had joined in the GATS, which broadly responded to their specific needs and would enable them to benefit from the process of progressive liberalization. While globalization of production had offered developing countries the possibility to participate in the supply of various services with their comparative advantage of low costs, significant barriers still remained. As the UNCTAD report underlined, the main difficulty faced by developing countries in their efforts to access and use information and distribution channels was their lack of technological, financial and human resources, a particular hindrance in the tourism sector, an area vital to developing countries. In order to overcome these difficulties, the UNCTAD report had recommended international cooperation and strategies to solve specific problems. African countries in particular needed financial and technical assistance from the international community in order to acquire appropriate technologies, as well as a better knowledge of market mechanisms, for modernizing their telecommunications infrastructure and becoming more competitive. Special consideration in this regard should be given to the least developed countries (LDCs). UNCTAD should attempt to identify sectors for which the LDCs had a comparative advantage, such as movement of natural persons across borders, in particular skilled persons, as well as the best ways to strengthen the services sector. Such work could also assist the LDCs in negotiating their schedules in the GATS. The African Group called for respect and consolidation of advantages accorded to developing countries under Article IV of the GATS.

15. The African Group deemed the case studies prepared by the UNCTAD secretariat - some of which concerned African countries - useful in identifying specific problems of each country and each sector, and supported the activities of UNCTAD in this area. It would be helpful if these studies eventually went beyond analysis to propose practical recommendations and concrete measures as well. Despite the fact that the services market was dominated by firms from developed countries, it was known that developing countries which had liberalized their economies could, with some assistance, gain access to international markets and become integrated into the global economy.

16. In reference to the considerable achievement made on the work programme, she said that her Group considered the technical cooperation programme, in general, and the Coordinated African Programme of Assistance on Services (CAPAS) in particular, to be a matter of high priority. She then expressed satisfaction with progress on the MAST database. In closing she reaffirmed the African Group's support for efforts to fulfil the Standing Committee's mandate under the Cartagena Commitment, taking into account the conclusion of the Uruguay Round.

17. The representative of **Egypt** underscored the complexity of the issues facing the international community, in general, and developing countries in particular, with regard to the services sectors. However much work remained to be done so as to address fully the objectives agreed upon in Cartagena; several new emerging issues should be studied seriously and acted upon for developing countries to be able to compete successfully in the services sectors. Commenting on the reports under consideration, he expressed his appreciation for the efforts of the UNCTAD secretariat in revising the MAST database and declared that his country was willing to cooperate with UNCTAD in this area. The questionnaire prepared by the UNCTAD secretariat with the objective of identifying policy options for developing countries to strengthen their service sectors would be sent to the pertinent national authorities for action. He underlined the importance for Egypt of the issue of the temporary movement of persons and regional cooperation. Given the great importance that his country attached to the role of joint ventures for stimulating the services sectors in developing countries, he suggested further studies be aimed at understanding the issues and assisting developing countries in formulating policies that would help them increase their services exports. UNCTAD had an important role to play in assisting developing countries to reap benefits from the provisions of GATS in their favour. Finally, he said that his country supported the proposal to establish a trust fund to enable UNCTAD to continue its technical assistance programmes to strengthen developing countries' production and trade capacity in services.

Chapter II

PROGRESS REPORT BY THE SECRETARIAT ON THE IMPLEMENTATION OF THE WORK PROGRAMME OF THE STANDING COMMITTEE, WITH SPECIAL EMPHASIS ON THE PREPARATION FOR UNCTAD IX

(Agenda item 5)

[To be completed]

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the session

.. The third session of the Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries was opened by Mr. Z. Baltacioglu (Turkey), in the absence of the Chairman of the second session.

B. Election of officers

(Agenda item 1)

.. At the opening plenary of the third session, on 25 September 1995, the Standing Committee elected its bureau as follows:

Chairman:	Mrs. Magda Shahin	(Egypt)
Vice-Chairmen:	Mr. D. Sinha	(India)
	Ms. J. Stewart	(Jamaica)
	Mr. G.T. Senadhira	(Sri Lanka)
	Mr. M. Aaltola	(Finland)
	Mr. J. Piotrowski	(Poland)
Rapporteur:	Mr. Igor Vencel	(Slovakia)

C. Adoption of the agenda and organization of work

(Agenda item 2)

.. At its opening plenary, the Standing Committee adopted the provisional agenda for its third session (TD/B/CN.4/41), as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Ways of enhancing access to and use of information networks and distribution channels

4. Impact of progress liberalization and of service imports on the development of competitive services sectors, and the difficulties faced by developing countries which prevent them from increasing their participation in world trade in services

5. Progress report by the secretariat on the implementation of the work programme of the Standing Committee, with special emphasis on the preparation for UNCTAD IX

6. Other business

7. Adoption of the report of the Standing Committee to the Trade and Development Board.

D. Adoption of the report of the Standing Committee to the Trade and Development Board

(Agenda item 7)

[To be completed]